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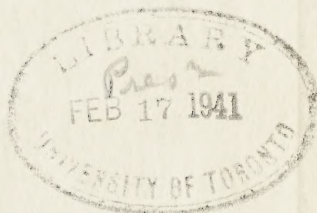
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Government
Publications


BANK OF CANADA



ANNUAL REPORT TO
MINISTER OF FINANCE
AND
STATEMENT OF ACCOUNTS

for 1940

FEBRUARY 11TH, 1941



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BANK OF CANADA

INCORPORATED UNDER THE BANK OF CANADA ACT, 1934

HEAD OFFICE—OTTAWA

BOARD OF DIRECTORS

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Governor

D. GORDON
Deputy Governor

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J. L. HOLMAN	SUMMERSIDE, P.E.I.
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A. STEWART MCNICHOLS	MONTREAL, QUE.
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Ex Officio Member of the Board

W. C. CLARK
Deputy Minister of Finance

OTTAWA, ONT.

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Governor

D. GORDON
Deputy Governor

L. P. SAINT-AMOUR
Assistant Deputy Governor

K. A. HENDERSON
Securities Advisor

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Secretary

L. P. J. ROY
Deputy Secretary

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Chief

W. A. CAMERON
Deputy Chief

CURRENCY DIVISION

C. E. CAMPBELL
Chief

J. P. MELVIN
Deputy Chief

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W. H. BUDDEN
Deputy Chief

CHIEF ACCOUNTANT'S DEPARTMENT

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Montreal Representative

PUBLIC DEBT DIVISION

M. G. ANDERSON
Chief

F. M. PETERS
Deputy Chief

AUDIT DEPARTMENT

E. FRICKER
Auditor

AGENCIES

CALGARY, ALTA.	J. PARRY	AGENT
CHARLOTTETOWN, P.E.I.	D. A. MACKINNON	"
HALIFAX, N.S.	S. A. STADEN	"
MONTREAL, QUE.	J. H. C. DESMARAIS	"
OTTAWA, ONT.	S. J. PERKINS	"
REGINA, SASK.	G. A. IVEY	"
SAINT JOHN, N.B.	E. H. CAMERON	"
TORONTO, ONT.	K. FREDERICKSON	"
VANCOUVER, B.C.	W. WINSBY	"
WINNIPEG, MAN.	W. MORTON	"

BANK OF CANADA

Ottawa, February 11th, 1941.

The Hon. J. L. Ilsley,
Minister of Finance,
Ottawa.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act Amendment Act, I am enclosing herewith in duplicate a statement of the Bank's accounts for the fiscal year 1940, signed by the Governor and the Chief Accountant, and certified by the Auditors in the form prescribed by the by-laws of the Bank.

Before dealing with individual items in the statement of accounts I should like to summarize the major changes over the year in the form of a table showing the effect of these changes on the cash reserves of the chartered banks.

<u>Calendar Year 1940</u>	<u>Changes produc- ing a decrease in chartered banks' cash</u>	<u>Changes produc- ing an increase in chartered banks' cash</u>
	<u>(Millions of Dollars)</u>	
Decrease in Gold Coin and Bullion (On May 1st, gold to the value of \$225,772,887 was sold to the Foreign Exchange Control Board.)	225.7	
Decrease in Sterling and U.S.A. Dollars (On May 1st, foreign exchange to the value of \$27,734,444 was sold to the Foreign Exchange Control Board.)	25.9	
Increase in Dominion and Provincial Government Securities (On May 1st, \$250,000,000 of One Year 1 per cent Dominion Government Notes were purchased from the Foreign Ex- change Control Board.)		344.0

BANK OF CANADA

	Changes produc- ing a decrease in chartered banks' cash	Changes produc- ing an increase in chartered banks' cash
	(Millions of Dollars)	
Increase in Other Assets		7.0
Increase in Rest Fund	1.3	
Increase in Active Note Circulation	99.4	
Decrease in Dom. Govt. Balances		33.9
Decrease in Other Deposits		8.3
Increase in All Other Liabilities	12.4	
	364.7	393.2
Deduct		364.7
Increase in Chartered Banks' Cash Reserves (Notes of and Deposits with Bank of Canada)		28.5

NOTES IN CIRCULATION

The total of Bank of Canada notes outstanding at the end of December was \$359,949,121, up \$127,169,794 from the previous year. Since chartered bank holdings rose by \$27.7 millions, the increase in the volume of Bank of Canada notes held by the public, over the year, was \$99.4 millions. This was offset, to the extent of \$4.8 millions, by a decline in the public's holdings of chartered bank notes, so that the increase in total active note circulation was \$94.6 millions.

A little more than half the increase took place during the months of May, June and July, and arose in part out of the desire of some people to hold more cash, because of nervousness inspired by war news. Since July, I believe that this tendency has been reversed, but the rise in active circulation which took place in the latter part of 1940, in response

to seasonal requirements and a general expansion of business, makes it impossible to estimate the precise extent of the reversal.

After making allowance for the situation referred to in the preceding paragraph, the active note circulation showed a continuous rise throughout the year, as compared with 1939. This was to be expected in view of the large increase in employment and national income. It is estimated that the amount of income paid out to Canadians in 1940 was about \$550 millions, or some 14 per cent, greater than in 1939. A major part of this rise is accounted for by increased army and industrial payrolls, where the proportion of income paid out in notes is high.

The Bank of Canada took steps to prevent the increase in active circulation from reducing the cash reserves of the chartered banks. It did so, in the main, by purchasing securities. The interest earned on these securities is, of course, the counterpart of the return which the public foregoes when, for business or other reasons, it holds notes instead of revenue-bearing assets.

RESERVES

On April 30th the Foreign Exchange Acquisition Order was enacted under the War Measures Act. This Order in Council required residents of Canada to sell to the Foreign Exchange Control Board all holdings of foreign exchange in excess of certain short-term requirements, and working balances deemed necessary for the conduct of foreign business. In accordance with the terms of the Order, the Bank sold to the Board on May 1st, 1940, foreign exchange with a Canadian dollar value of \$27,734,444. Another Order in

Council of the same date (the Exchange Fund Order) provided for sale of the Bank's gold holdings to the Board, and for temporary suspension of the Bank's minimum gold reserve requirement, as referred to in Section 26 of the Bank of Canada Act. The amount of gold which we sold to the Board on May 1st, 1940, under this Order, was 5,888,565 fine ounces, valued at \$225,772,887.

These transactions did not affect the value of the Canadian dollar. As I had occasion to point out during meetings of the Banking and Commerce Committee of the House of Commons in 1939, the internal value of the dollar depends upon the volume of money in the country, its rate of turnover, and the level of production, rather than upon the manner in which the money is backed. So far as the external value of the Canadian dollar is concerned, it seemed appropriate that under conditions of war all liquid foreign reserves should be concentrated in the hands of the organization specially charged with the administration of Canada's foreign exchange policy.

Since the enactment of the Foreign Exchange Acquisition Order, the Bank's holdings of foreign exchange have consisted almost entirely of sterling held for account of the Dominion Government or the Foreign Exchange Control Board in connection with the Government's programme for repatriation of Canadian securities from the United Kingdom. At the end of the year, the Canadian dollar value of our foreign exchange holdings was \$38,429,278.

INVESTMENTS

Our holdings of Dominion and Provincial Government securities on December 31st last were \$575,763,162, an in-

crease of \$343,990,604 for the year. The major part of the increase was caused by the purchase from the Foreign Exchange Control Board of \$250 millions of Dominion Government 1 per cent Notes dated May 1, 1940, and maturing May 1, 1941. This purchase coincided with our sale of gold and foreign exchange to the Foreign Exchange Control Board, as referred to in the preceding section.

On the basis of the Wednesday figures published in our weekly statement, the Bank's total investments in 1940 averaged \$247 millions more than in 1939.

ALL OTHER ASSETS AND LIABILITIES

On December 31st last, the amount shown opposite the heading in our balance sheet entitled "All Other Assets" stood at \$10,084,703, up \$6,353,945 from the previous year. "All Other Liabilities", at \$17,114,757, were \$12,436,252 higher. Both of these increases were temporary in character, being accounted for, in the one case by cheques on hand and in transit, and in the other case by Bank of Canada drafts issued but not presented for payment.

PROFIT AND LOSS

The net profit from our operations in 1940, after providing for contingencies and reserves, was \$4,044,460.09. Deducting dividend requirements of \$225,000 on the \$5,000,000 of capital stock held by the Minister of Finance left \$3,819,460.09, as compared with \$1,638,725.20 in 1939. The increase was mainly attributable to the rise in our security holdings. Of the amount available, in accordance with the terms of the Bank of Canada Act, one third, or \$1,273,153.36, was added to our Rest Fund, and the remain-

ing two-thirds, or \$2,546,306.73, was paid to the Dominion Government.

WAR SAVINGS SECTION

In May last, the Government inaugurated a War Savings campaign which, through continuous sale of War Savings Certificates and Stamps, is designed to promote more widespread and regular saving in support of the war effort than would be possible by means of War Loan campaigns alone. In its capacity as Agent for the Dominion Government in respect to the management of the public debt, it became the duty of the Bank to arrange for the issue and redemption of Certificates.

The nature of the War Savings campaign calls for regular and systematic savings from current earnings, and for this reason War Savings Certificates are issued in denominations of \$5, \$10, \$25, \$50, \$100 and \$500. Further, as a safeguard to the holder, each Certificate issued is registered in his name. To meet the special problems involved in dealing with a very large volume of items for small sums, a War Savings Section of our Public Debt Division was organized. Careful studies were made to select various forms of mechanical labour-saving devices to produce the necessary records and print the Certificates quickly for a reasonable unit cost. Naturally, this programme also required the recruiting of personnel to be trained in the special mechanical skills needed. As at December 31st last, the temporary staff of the Bank had been expanded by 154 by reason of War Savings Section needs. The organization developed for this work had to be of a type which could be expanded rapidly so as to provide for the increasing volume which is expected,

and as well to meet the peak loads which are experienced in a campaign of this character.

It is of interest to record that the daily average number of War Savings Certificates now being issued is in the neighbourhood of 15,000, and the daily number issued during the last three months of 1940 has fluctuated from a low of 5,500 to a high point of some 30,000. In our effort to discover and adopt the most practical routine to deal with these problems, we have been given valuable assistance by many large employers of labour, who have used their mechanical equipment and office staffs to assist in the issue of Certificates purchased by their own employees. I desire to express our sincere appreciation of this practical co-operation. I have reason to hope that it will be further extended as our system becomes better known.

STAFF

The permanent staff of the Bank now numbers 365, an increase of four since last year, and the temporary staff numbers 205, of whom 154 are engaged in the work of the War Savings Section, as referred to under the previous heading. Apart from the War Savings Section, the necessity for this temporary staff is directly attributable to additional work in connection with the war, including a largely increased note issue, an increased securities portfolio, Government loan issues, substantial movements of gold, and, as well, the Bank's work as agent and banker for the Foreign Exchange Control Board.

In my last report I mentioned that twenty-five of our permanent staff had been lent to the Foreign Exchange

Control Board. Of these, eleven were able to return to the Bank before the end of 1940, but during the year twelve members of our permanent staff were transferred to the newly established War Savings Section.

The sudden increase in the work of the Bank, arising out of war-time needs and regulations, imposed an extremely heavy burden upon our organization and despite every effort it has been necessary to ask many of our staff to work almost continuously under severe pressure and for long hours. I desire to record my gratitude to my colleagues, and to all members of the staff, for their exceptional and able co-operation in the year now closed.

BANK RATE

Bank Rate has remained unchanged throughout the year at $2\frac{1}{2}$ per cent. As in previous years, there has been very little need for banks to borrow.

CHARTERED BANKS' CASH RESERVES

The table on pages 4 and 5 shows that the cash reserves of the chartered banks were, as the result of our transactions during the year, \$28.5 millions greater on December 31st last than they had been a year before. Fluctuations in the cash base have been considerably greater than in peacetime, chiefly as a result of the operations of the Foreign Exchange Control Board.

If, for example, the Board is purchasing foreign exchange on balance, it may have occasion to sell Treasury Bills or other securities of a type which it is authorized to hold, in order to secure funds with which to buy foreign exchange. In the first instance, the Bank of Canada, acting

as banker and agent for the Board, buys these securities; and as the Board disburses the cash which it has thus acquired, the reserves of the chartered banks are correspondingly increased. Unless an increase in chartered bank cash is deemed necessary in the light of the monetary policy being pursued at that time, the Bank will then sell securities in the market as the opportunity offers, until the cash base has been restored to its former level. Meanwhile, however, chartered bank cash will have been somewhat above the desired figure. There may be fluctuation in the opposite direction if the Foreign Exchange Control Board is, on balance, selling exchange.

SECURITY MARKETS

In my last annual report, I commented upon developments in the high-grade bond market up to the end of January 1940. At that time two typical long-term Dominion issues averaged $97\frac{1}{4}$. A year later their average price had risen to $99\frac{1}{2}$, representing a reduction in yield of nearly one-quarter of one per cent.

This was about the same net change as occurred in the United States over that period, and in the case of the United Kingdom the decline in yield was about one-eighth of one per cent. Although there was little difference between the three countries as regards the net lowering of yields, there was, through the year, much less fluctuation in Canada than in either of the other two markets.

Because of the First and Second War Loans, the volume of Dominion bonds issued in Canada for new money was substantially greater in 1940 than in any year since the last war. In addition, the total of new domestic provincial issues was somewhat above the recent average. On the other hand,

corporate bond issues for new capital or for repatriation of foreign-pay obligations virtually disappeared, and the result was that the over-all volume of new money raised in the Canadian bond market, as shown in the appended table, was only moderately greater than in 1939. In comparing the two years, however, it must be remembered that the 1939 figures included one \$200 million Dominion issue sold directly to banks, which I referred to in my last report, and which had no counterpart in 1940.

FINANCIAL POLICY

The past year, with its rapidly rising level of war expenditure, has brought many proposals for changes in Canada's wartime monetary policy. We have examined the proposals carefully, because it would be foolish to believe that the last word has been said on a question of this sort. When analyzed, most of the suggestions boil down to a recommendation that the war should be financed by the creation and use of new money, on a far greater scale than any which has so far been seriously considered in this country.

There is, of course, nothing novel about the policy of using new money to pay for a major part of the cost of war. It has been adopted, or fallen into, in the past by many warring nations, most extensively, it may be noted, by the losers. The only conclusion we can draw from a careful analysis of past experience with this policy is that it represents a grossly inefficient and unfair method of distributing the real burdens of war—one which weakens the ability of a nation to wage war successfully, as well as to recover afterwards.

This conclusion may, however, be more convincing to some if it is tested against the methods of war finance which

are actually being used in other countries. For example, if paying for a major part of the costs of war with newly created money is, in fact, an efficient method of dealing with the problem, we would naturally expect Nazi Germany to use this method. The Nazis boast that they use the most modern, efficient and practical weapons, in the economic as well as the military sphere. They are not likely to have overlooked any expedient which would make Germany's present effort less unpleasant to her people, or more effective. I have, therefore, thought it useful to prepare and append to my report a short memorandum on the methods which Germany has actually used to finance her military effort.

Judging by the policies which they have pursued, the Nazis early recognized that total war was physically impossible without very heavy sacrifices upon the part of the people. They did not attempt to conceal this fact from their people, or suggest that the sacrifices could be avoided by monetary manipulation. Instead, in their financial measures, they concentrated upon the real problem of planning and organizing the distribution of the burden.

I am,

Dear Sir,

Yours faithfully,

G. F. TOWERS

Governor.

BANK OF CANADA

ESTIMATED
NET NEW BOND ISSUES OR **RETIREMENTS***

(Par Values in Millions of Dollars)

Calendar Years	Dominion and C.N.R. (1)	Provinces (2)	Private Corporations	Total (3)
PAYABLE IN CANADA ONLY				
1936	125	66	183	374
1937	25	82	75	182
1938	91	60	31	182
1939	274	53	92	419
1940	407	73	11	469
PAYABLE ABROAD, ONLY OR OPTIONALLY				
1936	39	27	134	200
1937	14	24	88	126
1938	21	11	45	77
1939	96	29	125	192
1940	147	15	15	177

* Treasury bills are excluded and also the \$250 millions of One Year 1 per cent Dom. Govt. Notes issued to the Foreign Exchange Control Board on May 1, 1940.

- (1) Includes all guaranteed issues.
- (2) Includes guaranteed issues other than those of the C.N.R., which are covered in the previous heading.
- (3) Available information concerning retirements by municipalities and religious institutions was not sufficiently comprehensive to justify including such classifications of bonds in this table.

MEMORANDUM ON GERMAN WAR FINANCE

There is, I believe, a widespread impression that Germany has discovered a new method of financing war; a method which, it is frequently implied, has some of the attributes of financial magic. The Nazis' propaganda, among their enemies, has carefully fostered this impression. No doubt the Germans realize that to promote a belief that they have found such a method is one of the most insidious ways of sapping the determination of their enemies to face, and deal with, the real problems of war finance. I should like, therefore, to bring together in brief form the main facts regarding Nazi financial policy.

First of all, a brief review of economic developments in Germany since the beginning of 1933. When the Nazis came to power, one-third of Germany's employable population was out of work. The recovery which took place in the next few years was, in effect, an armament boom, of the type we have seen in many countries before and since that time. And as usually occurs when an armament boom gets under way at a time of heavy unemployment, the building up of the German war machine was accompanied, at first, by some increase in the average standard of living. By 1936, the average had probably risen by about 10 per cent from the desperately low level of 1932. After the militarization of the Rhineland, however, the Nazis were able to arm more openly and speedily. From then on, despite continuing efforts to increase total production as rapidly as possible, military requirements rose so sharply that some curtailment of the volume of goods and services being produced to meet non-military needs became inevitable. The government did not attempt to conceal this fact from the German people. On

the contrary, as early as December 1935, General Goering was telling the people they had to choose between "guns" and "butter".

By 1938, the German economy had been pushed close to the limit of its productive capacity. Thereafter, as war preparations were stepped up, and as war began, production devoted to meeting civilian needs had to be reduced sharply. The most recent figures available indicate that the average standard of living in 1940 was lower than that of 1932.

This is not surprising. No reasonable person would expect that any nation could build a war machine such as Germany had developed by the spring of 1940, without imposing severe privations upon its people. However, the subject of this memorandum is not the magnitude of Germany's military effort, nor even the magnitude of the material sacrifices which it required. What we are concerned with is the financial technique which the Nazis used in bringing about the necessary sacrifices.

Their method of finance did not determine the total weight of the burden of sacrifice. This depended upon the scale of the armament and war programme and, consequently, the amount of productive capacity left over to meet non-military needs. What the government's financial policy did determine, however, was the manner of distributing the burden among the people. With a burden of such unprecedented weight, this was a matter of supreme importance, because even in the case of the German people, willingness to make sacrifices was not unlimited. The Nazis appear to have recognized that the people would carry a given burden more willingly if it were well distributed, and that the more

carefully it was spread, the heavier would be the armament and war load which they could be made to bear. The financial methods which the Nazis have adopted will be examined briefly, under the three headings of taxation, borrowing, and the creation of new money.

I

How far have the Nazis taxed? On this point there is simple and conclusive evidence. In the fiscal year ending March 1941, according to a recent official estimate, Reich Government tax collections will be approximately 30,000,000,000 Reichsmarks,* or about one-third of Germany's total national income. In Canada, during the same period, Dominion Government revenues will be about one-sixth of total national income. In the United Kingdom the proportion will probably be something more than one-fifth. Including the levies of the states (or provinces) and local governments, the German people are paying in taxes at least one-third more, in relation to their income, than are the people of Canada. In addition to formal taxes, Germans have also to make substantial direct payments to their government in the form of Party dues, Winter Relief Fund donations, and other special "contributions" which are just as compulsory as taxes.

Clearly, therefore, the Nazis have not avoided heavy taxation. On the contrary, their policies would indicate they believe taxation to be one of the best methods of financing

*In converting Reichsmarks into Canadian dollars there is no single rate which can be quoted because, in the foreign exchange market, there are various types of Reichsmarks whose values vary according to the purpose for which they can be used. In making general comparisons, however, one may assume that the Canadian equivalent is materially less than the old official rate of 40c, being probably of the order of 30c.

war, because they have pushed it to unparalleled lengths. In spite of the fact that Nazi taxes occupy a stratosphere all their own, they have, of course, fallen short of meeting the whole cost of armament and war. How, then, have the Nazis financed the rest of their military expenditures? The answer is, mainly by borrowing from the public, i.e. from corporations (other than banks) and from the people.

II

Before the Party came to power, one of the most popular planks in its platform was the undertaking to "break the bondage of interest slavery", but this slogan was discarded soon after the Nazis took office. Their statistics show that up to September 30, 1940, they had increased the Reich's internal funded debt by 31,000,000,000 Reichsmarks. Moreover, they are paying interest rates of 4 per cent, 4½ per cent, or higher on all of this debt. Only in 1941 have they sold bonds at a rate below 4 per cent, and even the 3½ per cent coupon on their January issue is somewhat higher than the rates which prevail, for example, in Canada or the United Kingdom. As at September 30, 1940, the disclosed increase in short term debt under the Nazi Government was 27,000,000,000 Reichsmarks, a substantial part of which was placed with industrial and commercial corporations.

The most unusual feature of Nazi policy as regards borrowing has been the degree of compulsion applied to lenders. In addition to rigid control of the capital market, which has in practice forced ordinary investment funds into government securities, the Nazis "suggest" quotas for those whom they consider able to lend. In this respect much of the Nazis' borrowing has been no more voluntary than taxation, nor has it been much less restrictive in its effect upon private expenditures.

III

Finally, how far have the Nazis financed their military effort through increasing the volume of money, either by borrowing from banks, or by printing currency? No comprehensive figures are yet available dealing with the period since the actual outbreak of war. At that time, however, the German economy had, in effect, been on a war footing for well over a year, and according to Herr Hitler's statement in September 1939, the vast sum of 90,000,000,000 Reichsmarks had already been spent on the war machine. It is, therefore, not unfair to consider the figures up to the outbreak of war as representative of the Nazis' war time monetary policy. Up to that time, the total of coin and notes outstanding, and bank deposits owned by the public, had increased by some 16,000,000,000 Reichsmarks from the 1933 level. In relation to the 90,000,000,000 Reichsmarks of military expenditure which the Nazis were making during that period, this may seem to many a surprisingly small amount.

The truth is that German monetary policy has not been unusual. It has been simply an easy money policy of the sort which has been followed in many countries during the past decade. In Canada, for example, between January 1933 and August 1939, the total volume of money (i.e. coin, notes and bank deposits) was increased by some \$750,000,000. International comparisons of the volume of money cannot be pushed too far since the velocity of circulation is an important factor, but it may be worth noting that on a per capita basis, the increase in the volume of money was about the same in Canada as it was in Germany, over the pre-war period. As for the period since the war began, the available information

suggests that the volume of money has been increased considerably less in Germany than it has been in Canada, on a per capita comparison.

A realistic appraisal of Nazi monetary policy must, of course, take account of the very complete and rigorous system of direct controls which the rulers of Germany have imposed upon their people. For example, nearly every article of consumption is rationed, wage levels and farm prices are rigidly pegged down, and the operations of private business are "supervised" in minute detail. With such controls in operation, the immediate danger involved in an unduly large increase in the volume of money would obviously be less than it would be if the controls did not exist. The fact that the Nazis did not resort to issuing new money on an exaggerated scale is all the more significant in view of the margin of safety which they might have expected their elaborate direct controls to provide.

* * *

One can only speculate as to why the rulers of Germany adopted the type of fiscal and monetary policies which they did. They had set themselves the task of absorbing and diverting into the military orbit over half of their nation's total productive resources, and perhaps this responsibility kept the physical realities of a war economy so constantly before them that they could not help taking a realistic view of war finance. But whatever their reasons may have been, the record of what they have done is clear.

The policies which have been described above are those followed within the Reich. In the occupied territories, on the other hand, the Nazis have used the printing press deliberately

as a means of plundering those areas. Instead of seizing goods the Germans simply bought them, paying with newly printed notes, and the people were robbed of purchasing power by soaring prices. This refined method of looting tends to hide the Nazis' responsibility for resulting scarcities, and bears most heavily on sections of the population least able to endure it, thus helping to disrupt the economy and destroy the unity of the conquered people.

* * *

There is, of course, no assurance that German monetary policy will not change. A different policy might be adopted if, for example, the war sacrifices which the Nazi leaders found it necessary to impose upon their people became so intolerable that the people could not bear to face them directly. Under such circumstances, the rulers of Germany might in desperation resort to the type of monetary policy which was used in that country under similar circumstances in the last war. News of such a change of policy would, I believe, for us, be good news.

BANK OF CANADA

PROFIT AND LOSS ACCOUNT

31ST DECEMBER, 1940

PROFITS FOR THE YEAR ENDED 31ST DECEMBER, 1940, after making pro- vision for Contingencies and Reserves	\$4,044,460.09
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APPROPRIATED AS FOLLOWS:

Dividend No. 12 payable 2nd July, 1940, at 4½% per annum on \$5,000,000.00 for six months to 30th June, 1940	112,500.00
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Dividend No. 13 payable 2nd Janu- ary, 1941, at 4½% per annum on \$5,000,000.00 for six months to 31st December, 1940	112,500.00	225,000.00
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BALANCE	<u>\$3,819,460.09</u>
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TRANSFERRED TO REST FUND	1,273,153.36
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FOR CREDIT OF RECEIVER GENERAL OF CANADA, ACCOUNT CONSOLIDATED RE- VENUE FUND	<u>2,546,306.73</u>	<u>\$3,819,460.09</u>
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REST FUND

BALANCE AS AT 30TH DECEMBER, 1939	\$2,449,756.52
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AMOUNT TRANSFERRED AT 31ST DECEMBER, 1940, AS ABOVE	<u>1,273,153.36</u>
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BALANCE AS AT 31ST DECEMBER, 1940	<u>\$3,722,909.88</u>
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BANK OF STATEMENT OF ASSETS as at 31st

LIABILITIES

CAPITAL:

Authorized, 100,000 shares, par value \$50.00 each	\$ 5,000,000.00	
Issued and Paid-up		\$ 5,000,000.00

REST FUND	3,722,909.88
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NOTES IN CIRCULATION	359,949,121.23
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DEPOSITS:

Dominion Government	13,426,257.64	
Chartered Banks	217,738,289.04	
Other	9,514,892.57	240,679,439.25

DIVIDEND DECLARED:

Payable 2nd January, 1941 . .	112,500.00
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ALL OTHER LIABILITIES	17,114,757.11
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AUDITORS' REPORT

We have examined the above statement of Assets and Liabilities of the Bank of Canada as at 31st December, 1940, and have received all the information and explanations we have required. We report that, in our opinion, it is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs as at that date, according to the best of our information, the explanations given to us, and as shown by the books of the Bank.

We wish to point out that, on May 1st, 1940, under the authority of Order in Council P.C. 1734, the gold holdings of the Bank were sold and the proceeds invested in interest bearing securities.

E. J. HOWSON, F.C.A.,
of the firm Thorne, Mulholland,
Howson & McPherson.

JEAN VALIQUETTE, C.A.,
of the firm Anderson & Valiquette.
Auditors.

\$626,578,727.47

Ottawa, 30th January, 1941.

CANADA

AND LIABILITIES

December, 1940

ASSETS

RESERVE—at market value:

Sterling and U.S.A. Dollars	\$ 38,429,278.14
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SUBSIDIARY COIN	598,311.97
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INVESTMENTS — at not exceeding market values:

Dominion and Provincial Gov- ernment short term securities	448,439,972.82
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Other Dominion and Provincial Government securities	<u>127,323,188.93</u>	575,763,161.75
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BANK PREMISES:

Land, Buildings and Equipment at cost less amounts written off	1,703,272.56
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ALL OTHER ASSETS	<u>10,084,703.05</u>
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	<u><u>\$626,578,727.47</u></u>
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G. F. TOWERS,
Governor.

H. R. EXTENCE,
Chief Accountant.

Government
Publications



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